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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---------------------- In the Matter of --------------------)) PUBLIC UTILITIES COMMISSION)) Instituting a Proceeding to Investigate the) Issues and Requirements Raised by, and) Contained in, Hawaii Revised Statutes) Chapter 486H, as Amended))	DOCKET NO. 05-0002

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PUBLIC UTILITIES COMMISSION

HAWAII PETROLEUM MARKETERS ASSOCIATION'S
INFORMATION REQUESTS TO ICF CONSULTING, LLC

and

CERTIFICATE OF SERVICE

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INFORMATION REQUESTS TO ICF CONSULTING, LLC

HAWAII PETROLEUM MARKETERS ASSOCIATION ("HPMA"), by and through its attorneys, Cades Schutte LLP, hereby submits its Information Requests to ICF Consulting, LLC, pursuant to the Regulatory Schedule of the Public Utilities Commission set forth in Order No. 21670 filed March 1, 2005.

I. Definitions And General Instructions For HPMA's Information Requests

1. The term "you" or "ICF" shall mean ICF Consulting, LLC, and shall include, but not be limited to, all of its predecessor companies, present and former officers, attorneys, employees, servants, agents, and representatives, and any person acting on ICF's behalf.

2. The term the "Report" or "Recommendations" shall mean that certain Implementation Recommendations for Hawaii Revised Statutes Chapter 486H, Gasoline Price Cap Legislation dated April 15, 2005, authored by ICF and filed with the Hawaii Public Utilities Commission on April 15, 2005.

3. The term "including" means "including, but not limited to."

4. "List," "describe," "explain," "specify," or "state" shall mean to set forth fully, in detail, and unambiguously each and every fact of which ICF or its agents or representatives have knowledge which is relevant to the answer called for by the request.

5. The terms "document" or "documents" shall include, without limitation, any writings and documentary material of any kind whatsoever, both originals and copies (regardless of origin and whether or not including additional writing thereon or attached thereto), and any and all drafts, preliminary versions, alterations, modifications, revisions, changes and written comments of and concerning such material, including but not limited to: correspondence, letters, memoranda, notes, reports, directions, diagrams, schemata, studies, investigations, questionnaires and surveys, inspections, permits, citizen complaints, papers, files, books, manuals, instructions, records, pamphlets, forms, contracts, contract amendments or supplements, contract offers, tenders, acceptances, counteroffers or negotiating agreements, notices, confirmations, telegrams, communications sent or received, print-outs, diary entries, calendars, tables, compilations, tabulations, charts, graphs, maps, recommendations, ledgers, accounts, worksheets, photographs and any other pictorial representations, tape recordings, movie pictures, videotapes, transcripts, logs, workpapers, minutes, summaries, notations and records of any sort (printed, recorded or otherwise) of any oral communication whether sent or received or neither, and other written records or recordings, in whatever form, stored or contained in or on whatever medium including computerized or digital memory or magnetic media that:

A. are now or were formerly in your possession, custody or control; or

B. are known or believed to be responsive to these requests, regardless of who has or formerly had custody, possession or control.

6. The term "date" shall mean the exact day, month and year, if ascertainable, or if not, the best approximation thereof, including relationship to other events.

7. The term "person" or "persons" means and includes any individual, committee, task force, division, department, company, contractor, state, federal or local government agency, corporation, firm, association, partnership, joint venture or any other business or legal entity.

8. The terms "identify" and "identity":

A. when used with reference to a natural person shall mean to state his or her full name, present or last known address, present or last known telephone number, present or last known place of employment, position or business affiliation, his or her position or business affiliation at the time in question, and a general description of the business in which he or she is engaged;

B. when used with respect to any other entity shall mean to state its full name, the address of its principal place of business and the name of its chief executive officers;

C. with respect to a document shall mean to state the name or title of the document, the type of document (e.g., letter, memorandum, telegram, computer input or output, chart, etc.), its date, the person(s) who authored it, the person(s) who signed it, the person(s) to whom it was addressed, the person(s) to whom it was sent, its general subject matter, its present location, and its present custodian. If any such document was but is no longer in the Applicants' possession or subject to its control, state what disposition was made of it and explain the circumstances surrounding, and the authorization for, such disposition, and state the date or approximate date thereof;

D. with respect to any non-written communication shall mean to state the identity of the natural person(s) making and receiving the communication, their respective principals or employers at the time of the communication, the date, manner and place of the communication, and the topic or subject matter of the communication.

9. If ICF files a timely objection to any portion of a request, definition, or instruction, please respond to or comply with the remaining portion(s).

10. In these requests the singular shall also be treated as plural and vice-versa.

11. Each response should include the name of the person(s) providing the response.

12. If any part of a document is responsive to any request, the whole document is to be produced, with the responsive portion clearly identified.

13. Please identify each and every document to which you assert a claim of privilege or objection to production by stating in writing a general description of the document, its title, number of pages, date of preparation, person(s) who prepared the document, any person(s) who received or reviewed the document in original or other form, and the current custodian(s) of the document, and state in writing the nature and basis for each claim of privilege or objection asserted for the document.

14. If ICF claims that any portion of a document is privileged, ICF shall provide those portions of the document to which ICF is not claiming a privilege until such claim of privilege is resolved. This instruction shall not waive any rights HPMA may have in connection with challenging any claim of privilege asserted by ICF.

15. These requests are continuing in nature and, thus, ICF is under a continuing duty to promptly supplement, correct or revise any response provided when the passage of time or change of circumstances would require a response to be supplemented, corrected or revised.

16. Each request should be answered in writing on a separate page. Each response should contain the question being answered.

17. Responses to these requests shall not violate the terms of that certain Stipulation For Protective Order embodied in Order No. 21669, filed March 1, 2005 with the Public Utilities Commission, and the Protective Agreements entered into by ICF's representatives there under.

DATED: Honolulu, Hawaii, May 27, 2005.

KELLY G. LAPORTE
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NEILL T. TSENG
Attorneys for
HAWAII PETROLEUM MARKETERS ASSOCIATION

Docket No. 05-0002
In the Matter of Public Utilities Commission Instituting a Proceeding To Investigate the Issues and Requirements Raised by, and Contained in, Hawaii Revised Statutes Chapter 486H, As Amended

BASELINE & LOCATION

HPMA-IR-1 Ref. ICF Recommendations at p. 18:
"The price quoted by Platt's for the Far East are the most reliable in the very liquid and commercial market in Singapore, while prices in Korea and Taiwan are less transparent."

a. Is this the only rationale for adopting Singapore-sourced price data for this study and, if not, what other criteria or characteristics were looked at to justify the Singapore data as a valid choice to apply to a Hawaii price cap calculation?
b. Please explain what makes Platt's a "reliable" source for data in the Far East. How are Platt's numbers derived, and what is their relationship to actual prices? Are there any transactions not included in Platt's?
c. Does Platt's or any other service report Korea and Taiwan prices? If so, why are these not reliable?
d. Are Singapore specs for gasoline the same as gasoline specs in Hawaii? Should the Singapore baseline numbers be adjusted for the more realistic possibility that product would likely come from Asian sources other than Singapore?

HPMA-IR-2 Ref. ICF Recommendations at p. 19:
"ICF believes that Hawaii could be a reasonable competitive disposition for Caribbean volume."

a. What is meant by a "reasonable competitive disposition" and upon what basis was this assumption made?
b. Is this the only rationale for adopting Caribbean-sourced price data for this study and, if not, what other criteria or characteristics were looked at, justifying the Caribbean data as a valid choice to apply to a Hawaii price cap calculation?
c. Other than the Caribbean and Singapore, were any other sources considered and, if so, where were they and why were they eliminated?
d. Did ICF study the history of finished products imports to Hawaii? Where have past cargoes come from?

e. ICF rejected the sources in the price cap Law, and replaced Caribbean with US Gulf Coast (USGC). Is there a significant difference between the two in the way gasoline prices move? Aren't USGC prices more reflective of U.S. prices?

f. Are Caribbean specs for gasoline the same as gasoline specs in Hawaii? Should the Caribbean baseline numbers be adjusted for the more realistic possibility that product would likely come from sources other than the Caribbean?

HPMA-IR-3 Ref. ICF Recommendations at p. 19

It was recommended that the *"Caribbean should be evaluated using the USGC Platt's waterborne price less 1 cpg to recognize trading competition."*

a. Please show your calculation of, and provide all work papers showing, how the 1 cpg for trading competition was derived; include any assumptions made and the databases and the specific sources used.

b. What are "waterborne" prices? Are these cargoes in tankers that could be sent to Hawaii?

c. Are clean product tankers of 30 MT available in the Caribbean on short notice? How long would it take to find an available clean product tanker of this size, and to position it at a terminal with which a contract has been made to provide 30 MT of gasoline?

HPMA-IR-4 Ref. ICF Recommendations at p. 21

". . . ICF has estimated Hawaii freight costs based on a relationship between published Platt's freight and Worldscale assessments and by adjusting the cost to reflect estimated trip times . . ."

a. Describe, in detail, what you meant by the "relationship" between Platts' freight and Worldscale and how it was applied to the calculation of Hawaii freight costs.

b. Describe, in detail, how the cost was "adjusted" to reflect trip times.

c. Did ICF make any effort to determine if the methodology it used to adjust known routes for a Hawaii diversion was applicable to actual charter costs for clean product tankers on a timely basis?

d. How did ICF determine that a 30 MT tanker was the appropriate size? How many days' Hawaii inventory are 30 MT of gasoline?

e. Would the repositioning of an empty tanker from Hawaii be a cost borne by the importer? If not, why not? If so, was this additional cost taken into account in calculating freight costs?

f. Did ICF take demurrage charges into account?

HPMA-IR-5 Ref ICF Recommendation P. 21 (Freight Costs):

a. Please show your calculation of, and provide all of your work papers showing how the 0.5% in-transit losses, 0.15% cargo insurance, 1.25 cpg import duty were derived; include assumptions made, if any, and the databases and their sources used, if any.
b. Will any of these factors be subject to the weekly adjustment of baseline and location pricing, and if not, why not?
c. Where in the ICF Recommendations does it explain how these factors are to be adjusted, if at all?

HPMA-IR-6 Ref. ICF Recommendations at p. 22:

Please show your calculation of, and provide all of your work papers showing how the 1 cpg for storage and handling was derived; include the assumptions made and the databases and their sources used.

HPMA-IR-7 Ref. ICF Recommendations at p. 26:

a. Please explain, in detail, your rationale for recommending that the baseline prices and freight cost be updated weekly.
b. Given that the baseline and location adjustment are updated weekly, wouldn't it be more consistent and accurate if the marketing margins and zone adjustments were also updated weekly, and if not, why not?

BULK - MARKET MARGINS

HPMA-IR-8 Ref. ICF Recommendations at p. 34

Please show your calculation of, and provide all of your work papers showing how the 1 cpg for margin incentive was derived; include the assumptions made and the databases and their sources used, if any.

OVERVIEW – MARKET MARGINS

HPMA-IR-9 Ref. ICF charter and assumptions

ICF has stated in several places in the Report and verbally, that its intention was to simulate a "virtual pipeline" of gasoline supply to Hawaii, and to replicate "what a competitive market in Hawaii would look like."

a. Please explain what a "virtual pipeline" means in terms of supply, and how it applies to Hawaii's situation.

b. Please clarify the assumptions used in concluding that "a competitive market in Hawaii", at various levels, should look like the market simulated by your proposed Gas Cap structure.
c. Does ICF believe that Hawaii, at all levels, is not a competitive market for gasoline?
d. Are there other ways the Hawaii market could be simulated to more closely reflect the inherent structure of the market?
e. If ICF's intent was to simulate the costs of importing and distributing gasoline in Hawaii in competition with refiners, should it not have evaluated doing so on a stand alone basis? What would be the costs of importing and distributing gasoline without taking advantage of the existing wholesale infrastructure?

HPMA-IR-10 Ref. ICF Recommendations at p. 35

"In order to be profitable as a marketing company or as a marketing business unit of an integrated company, marketing gross margins should cover wholesale marketing costs (this would include costs for brand advertising, sales representatives & management, additives, etc.) and provide a reasonable profit margin."

a. Were any other wholesale marketing costs considered other than advertising, sales representatives and management, additives, and, if so, what were they?
b. Were the various components making up "marketing gross margin" ever quantified and, if so, how was that calculation made and what were the results?
c. In taking into consideration the various components that make up marketing costs, did you ever consider rebates; impacts of the size of the market, land values; capital costs, rent subsidies, credit terms and, if so, were they ever quantified and, if quantified, what were the assumptions made, calculations and results?
d. If the values noted in "c" above were taken into consideration, explain how they were incorporated into the margin calculation and, if not, why not?
e. Was the "reasonable profit margin" ever quantified and, if so, please show your calculations of and provide all of your work papers showing how this "profit margin" was derived to include the assumptions made and the databases and the specific data sources used.
f. Given that in the Hawaii market, wholesalers must account for and deal with inventory cost risk in having to maintain inventory levels that exceed 30 days of supply, and that the 8 cities used to calculate the DTW margin are of a significantly larger size and have higher volume turnover, shouldn't the methodology proposed

specifically take this into account in calculating either the DTW or the marketing margin?

g. How many markets studied by ICF imported gasoline through an offshore mooring? Are there costs associated with offshore moorings that should be part of import parity costs?

HPMA-IR-11 Ref. ICF Recommendations at p. 35

"Oahu gross margins for DTW and Rack Sales have averaged 32 and 28 cpg in 1999-2004"

a. Should the reference to Exhibits 3.8 & 3.9 be to 3.11 & 3.16?
b. What specific EIA database was used in estimating historic gross margins for Oahu and why was that database chosen?
c. Was any attempt made to reconcile the criteria ICF has used (Ref IR-9) with these margins?

RACK – MARKET MARGINS

HPMA-IR-12 Ref. ICF Recommendations at p. 35

"For Rack prices ICF evaluated historical Platt's data on average terminal rack prices...in 8 major markets"

a. Why was Platt's chosen and not EIA for these markets?
b. Was there any attempt to use EIA data to compute rack prices in these markets and, if so, what were the specific EIA data bases reviewed, what were the results, and why weren't they used?
c. Identify the criteria adopted by ICF used in picking the 8 cities that it used to compute the rack pricing margins. What assumptions were made?
d. Were the criteria, characteristic and assumptions identified and utilized by ICF ever compared to the Hawaii market and, if so what were the results, and if not, why not?
e. What other cities were considered and eliminated and why?
f. Were the 8 cities chosen weighted by volume to determine average? If not, why not?
g. Don't many, perhaps all, of the selected markets have material differences from the Oahu market – either size, access to product, transportation, structure of the market, regulations in place (rent-caps, divorcement/anti-encroachment laws, ethanol mandates, etc)? How were these differences accommodated in determining the market margins?

HPMA-IR-13 Ref. ICF Recommendations Exhibit 3.8, at p. 36, also p. 66, 7.2.2, 4^{th} sub-bullet:

The transportation component uses a mix of 50% pipeline and 50% barge.

a. What assumptions were made when choosing a mix of 50% pipeline and 50% barge and how do such assumptions compare to what can be expected in the Hawaii market?
b. Were other combinations considered and, if so, why were they excluded from the analysis?
c. Please show your calculations of, and provide all of your work papers showing how the transportation component of the Rack prices was derived; include the assumptions made and the databases and their sources used, if any.
d. In the Transportation column it is noted that (fn2) it is comprised of published tariffs, estimated barge costs and a 1cpg terminal fee. Why were published tariffs used for Rack pricing and not in determining Trucking costs for the zone adjustments?
e. What were the "barge costs" added to derive the Transportation component of Rack pricing?
f. Please show your calculations of, and provide all of your work papers showing how the "Barge costs" were derived to include the assumptions made and the databases and their sources used.
g. How often will this Barging cost be recalculated?
h. Please show your calculations of, and provide all of your work papers showing how this 1 cpg terminal fee was derived, to include the assumptions made and the databases and their sources used.
i. If 1 cpg was added to the freight calculation to derive the Oahu parity price, does that mean that the 1 cpg terminal fee in the rack pricing will also automatically increase by a similar amount, and, if not, why not?

HPMA-IR-14 Ref. ICF Recommendations, Exhibit 3.9 at p. 36

In considering the 'Historical Wholesale Rack Margins', ICF used Platt's average Rack pricing, less spot market costs plus transportation.

a. Please explain ICF's rational for using the spot market cost plus transportation, rather than the Bulk pricing as reported by the EIA to determine the wholesale rack margins.
b. Was any other methodology used to calculate what the "Historical Wholesale Rack Margins" were and, if so, what were they and why were they eliminated?
c. Using the 1999 data as presented wouldn't the price cap for Rack sales in the year 2000 be 3.1 cpg, and at that level would that

make Hawaii's "capped" prices lower than 5 out of the 8 cites which ICF looked at?

d. Based on the previous question, is it ICF's opinion that in utilizing their proposed price cap methodology, which achieves results that fail to fall within the range achieved in those markets it deems representative of Hawaii, is a "fair" or "simulated" free market?

e. Is it ICF's opinion that capping Hawaii's market prices at below the free-market in other cities is reasonable, and if so, why?

HPMA-IR-15 Ref. ICF Recommendations at p. 36

a. What is the specific data source of the spot price used to calculate the Rack margins?

b. Were Temporary Competitive Allowances (TCA), which are awarded by wholesalers to jobbers on purchases, taken into account in computing the rack margins, and, if so, what were the amounts used, assumptions made, and calculations, and if not, why not?

c. Were rent caps taken into account in computing the rack margins, and, if so, what were the amounts used, assumptions made, calculation, and if not, why not?

d. Were transportation costs for partial or small deliveries taken into account in computing the rack margins, and, if so, what were the amounts used, assumptions made, calculations, and if not, why not?

e. Why was the NYH Conventional based on OPIS while the others are based on Platt's?

f. Of the 8 cities used to compute the wholesale Rack pricing margin, how many have TCAs, rent caps, and/or did you take into account the transportation costs of partial or small truck deliveries?

g. Given that TCAs, rent caps, and transportation costs of partial or small deliveries are a unique and integral part of Hawaii's market, shouldn't the methodology proposed specifically take these into account in calculating either the rack or DTW marketing margin?

HPMA-IR-16 Ref. ICF Recommendations at p. 37

"A comparison of the estimated Oahu Rack Price (based on EIA data) vs. the US Mainland average Rack margins for the eight cites shows. . ."

a. Please explain why the EIA database was used and not Platts'.

b. Was a similar calculation done using Platts' data and, if so, what were the results and why weren't such results used?

c. Was a similar calculation done using all EIA data for rack, and if so, what were the results and why weren't such results used?

d. Please explain why this is a statistically valid comparison given the different sources of data and the different basis upon which that data is gathered – EIA is actual historical data as reported by companies, Platts is a daily assessment by a journalist.

HPMA-IR-17 ref. ICF Recommendations at p. 39 and 43.

"Based on the historical peak month average margins, the Hawaii margin factor should be double the prior year Mainland annual average, . . ."

Doubling *"...insures Hawaii wholesaler marketers the flexibility to manage their business in a range consistent with Mainland marketers."*

a. Please show your calculations of, and provide all of your work papers showing how this "doubling" was derived; include the assumptions made and the databases and their specific sources, if any.
b. If this criteria is used for the illustrated market (Detroit in Exhibit 3.10) doesn't the "double the prior year" rule have a material effect on the average price achieved in that market in at least 2 years?
c. Can ICF please explain what this (p. 43) means, how it provides "flexibility" in Hawaii, and why Hawaii marketers are expected to manage their businesses as if in the mainland marketing areas chosen by ICF?

DTW – MARKET MARGINS

HPMA-IR-18 Ref. ICF Recommendations at p. 40

a. Please show your calculations of, and provide all of your work papers showing how this 3 cpg Unbranded to Branded rack differential was derived to include the assumptions made and the databases and the specific sources used.
b. Please explain how Unbranded and Branded gasoline applies to the Hawaii market. What have Hawaii sales of Branded and Unbranded gasoline been in Hawaii? What are the current pricing differentials?
c. How were 5 mainland markets chosen for the DTW analysis and why was Washington State not included?
d. Don't all of these mainland markets have material differences from the Hawaii market (market size, number of retail gasoline stations, regulations, supply alternatives, etc)
e. Were Temporary Competitive Allowances (TCAs) paid to any jobbers or dealers in any of these markets during the time frames shown? If so how much were these TCAs and how was this factored into the analysis?

f. Were rent-caps in place in any of these markets in the timeframes shown?
g. Why was EIA data used, and not Platt's?
h. Is it your opinion that the EIA is the best data source for determining DTW margins? Why?
i. What was the specific EIA database used?
j. Did you ever consider other locations/averages and, if so, what were they and why were they eliminated?
k. Was any consideration given to Hawaii's high cost of land acquisition, land use, and cost of construction, which is different from the 5 states chosen and how these differences would affect the DTW margin calculation?
l. Please show your calculations of, and provide all of your work papers showing how this 1 cpg estimate of supply costs was derived; include the assumptions made and the databases and their sources used, if any.
m. Were any other EIA databases considered and, if so, why were they eliminated?
n. What is the rationale for only updating annually?

HPMA-IR-19 ref. ICF Recommendations at p. 42.
"DTW margins can...be double the average."

a. Please provide backup for this statement
b. What effect would a cap of double the average have on the average margins in the 5 markets?

HPMA-IR-20 ref. ICF Recommendations at p. 43.
"This ensures Hawaii wholesale marketers the flexibility to manage their business in a range consistent with Mainland marketers."

a. What does this statement mean?
b. What analysis has been made to determine whether Hawaii marketers can cover costs and earn an appropriate profit in this "range"?

HPMA-IR-21 Ref. ICF Recommendations, Exhibit 3.21, at p. 45
a. Please show your calculations of, describe all adjustments, and provide all of your work papers showing how the "EIA Hawaii DTW price was adjusted based on Company data and Zone gasoline sales (DBEDT)"; include the assumptions made and the databases and their specific sources, if any.

b. Please show your calculations of, and provide all of your work papers showing how the 2.2 cpg terminal fee was derived; include the assumptions made and the databases and the data sources used, if any.

HPMA-IR-22 Ref. ICF Recommendations at p. 47

"The analysis done by ICF for marketing margins relies heavily on the Mainland margins. This is done to provide an 'outside Hawaii' perspective to the process of determining appropriate and competitive marketing actors."

a. In choosing the 8 cites to determine its Rack marketing margins and 5 states for its DTW marketing margins, what characteristics were noted and what assumptions were made to define this "outside" Hawaii perspective and how was it similar to the Hawaii market?"

b. Please confirm that it is ICF's opinion that wholesalers can utilize hedging gasoline futures contracts (or other means) to mitigate the importation of crude oil or gasoline at a fixed cost and describe how that can be accomplished. Were hedging costs included in the analysis?

c. Please identify how many wholesalers in the 8 cities or 5 states relied on to derive the Rack and DTW margin pricing rely on hedging to mitigate the risk associated with a gas cap and at what cost.

d. Can ICF determine the historical inventory days of gasoline (including unprocessed crude oil) in Hawaii, add to that the time between cargo acquisition and arrival, and demonstrate how an importer of crude oil or gasoline can mitigate the risk of weekly Gas Cap price decreases during that period of time?

e. ICF stated that the cost of hedging was "insignificant". Is it ICF's position that all of the pricing risk under Gas Cap in Hawaii can be nullified by a costless or minimal cost hedging strategy?

HPMA-IR-23 Ref. ICF Recommendations at p. 47.

"A stagnated wholesale price environment may be indicative of a market which is less efficient than the Mainland or with less incentive to manage costs."

a. Please provide any empirical data relied upon by ICF, which support the conclusion that Hawaii's market is "less efficient" or has "less incentive than the Mainland. If it may be indicative of these characteristics, what other possibilities did the ICF consider that a "stagnated price environment" might be indicative of?
b. Please confirm that ICF's reference to the "Mainland" is to the markets as defined by ICF in using the eight cities or five states to

calculate marketing margins, and if not, what is ICF's definition of "Mainland" as used in the above context?

c. Is it possible that prices in Hawaii do not move in the same manner as on the Mainland because both competitive refiners bring in cargoes of crude oil at fixed prices and compete with each other on that basis?

d. It has been recognized repeatedly by all parties that there is no mandate in the law that reductions in wholesale prices be passed to consumers by retail dealers. Dealers themselves have testified it is unlikely they will do so all the time, every time. Given the ultimate intent of the Law, should there not be some provision in the regulations to ensure that dealers are not simply enriched at the expense of consumers and suppliers?

ZONE ADJUSTMENTS

HPMA-IR-24 Ref. ICF Recommendations at p. 59

a. Was any analysis done or opinion reached as to whether breaking the state into 8 zones was reasonable or accurate?

b. If so, what were the results of your analysis?

c. Is it reasonable to think that actual costs of operation (trucking, etc.) will be the same for all sales made within each zone? If not then what is ICF's estimate of the cost differences within zones?

d. ICF has only addressed Terminal, Barging and Trucking cost differences between different zones. Are their any other cost differences for marketers between the zones?

e. Has ICF considered land costs, taxes, infrastructure differences, market size, risk factors or any other factors that may affect costs between the zones?

TERMINAL ZONE ADJUSTMENTS

HPMA-IR-25 Ref. ICF Recommendations at p. 59

a. What was the rationale for updating the Zone Adjustment annually as opposed to a shorter time period?

b. Wouldn't it more accurately reflect the then current market if it was done weekly like the baseline and freight price?

BARGING ZONE ADJUSTMENTS

HPMA-IR-26 Ref. ICF Recommendations at p. 60

a. What is significance of updating barging cost on March 1?

TRUCKING ZONE ADJUSTMENTS

HPMA-IR-27 Ref. ICF Recommendations at p. 60

a. Will the annual update of trucking costs also occur on March 1?
b. Was any analysis done on the Oahu trucking costs and other regions on the Mainland not used in recommending DTW margins and, if so, what did your analysis show (identify any assumptions made and the databases and the specific sources used)?
c. Please confirm that ICF did not use the PUC's approved Hawaii trucking tariffs in computing trucking costs.
d. Wouldn't using the PUC approved trucking tariffs as a specific component in the trucking zone adjustment better take into account the cost differentials inherent in delivering to locations at varying distances from the load rack?
e. Did ICF investigate the difference between the average trucking costs allowed in each Zone's and the actual costs provided by the market participants? If so, what was the largest difference identified between the average cost and the actual cost? How were these differences accounted for in the analysis?
f. What analysis, if any, did ICF make of the ability of the marketer to absorb the difference between the average trucking cost allowed in each zone and the actual trucking costs to the more remote or smaller customers?

HPMA-IR-28 Ref. ICF Recommendations at p. 61

a. Is it your recommendation that the 0.7cpg added to barging also be reviewed and updated annually and, if not, why not?
b. Please show your calculations of, and provide all of your work papers showing how this 0.7 cpg added for losses, inspections, and demurrage costs was derived; include the assumptions made, if any, and the databases and the specific sources used, if any.
c. Since Hawaii barge charters are not subject to the Gas Cap law, if local barge companies insist on charter rates higher than reflected in ICF's assumptions and adjustments, how would a marketer recover these costs?

HPMA-IR-29 Ref. ICF Recommendations Exhibit 6.1 at p. 62
"Costs are what was actually reported by companies."

a. Were each of the components making up costs in each zone the same and if not, then by Zone what were the differences?
b. In Zone 1, the reference to "Base" is 2.7 cpg with others being in excess of Base. Is it part of the methodology being recommended that this 2.7 cpg be adjusted and, if so, how and when?
c. Were the trucking tariffs approved by the PUC ever considered and/or compared to the trucking costs calculated by ICF and, if so, any analysis as to the explanation as to why there is, in some cases, such a drastic difference between the two, and if not, why not?

HPMA-IR-30 Ref. ICF Recommendations at p. 64
"As noted, ICF averaged these data to arrive at "typical" barge, terminaling and trucking costs for each zone (aggregated on Exhibit 6.1)."

a. Were these "data" points that were averaged the same for each zone or did they vary, and if so, explain each variance?
b. Were any data reported by the companies not used by ICF, and if so, why?
c. How did the data relate to the size or utilization of barges, terminal and trucks, and to capital costs?
d. "Typical" barges and average costs favor bigger companies with larger volumes. How does the ICF support this anti-competitive result of their assumptions?

HPMA-IR-31 Ref. Exhibit 6.3, page 64

a. Can ICF explain why the difference between the Gas Cap DTW prices and the Gas Cap Branded Rack costs in the table is exactly 8.3 cents for all zones?
b. Please provide all data and work papers used to arrive at this margin for all zones, the data and work papers used to determine that this is the appropriate number for all zones, and the supporting calculations showing that each jobber on each island can exist on this margin.
c. Is it ICF's expectation that if a jobber has a retail dealer account that the jobber cannot deliver to at an 8.3 cent margin (or any other margin determined by the proposed formula), that the jobber will deliver gasoline anyway because he will still average 8.3 cents with profitable deliveries?

d. If this margin calculation changes each year due to mainland data changes, why would ICF expect Hawaii jobber costs (and therefore, necessary margins) to be related?

MARKETING MARGIN ADJUSTMENT

HPMA-IR-32 Ref. ICF Recommendations at p. 66

a. Was any consideration given to the typical volumes handled by a mainland wholesaler in any of the 5 markets chosen vs. ones in Hawaii and how that might affect the margin calculation?

b. If such a consideration was made, what were the results and why were they eliminated from the analysis?

c. Does ICF think volume differences between Hawaii marketers and mainland marketers play a role in determining margins?

HPMA-IR-33 Ref. ICF Recommendations (7.3.1 Process) at p. 68:

a. Please confirm that the process to calculate the gas caps or subsequent adjustments does not take into account any attrition that may occur either at the refinery or the wholesale level.

b. Would it be appropriate to provide rules or have contingencies in place that can be implemented to avoid attrition before it happens, or, as stated, simply to "understand the causes"?

HPMA-IR-34 Ref. ICF Recommendations at p. 73

a. Please confirm that without a thorough analysis of the market and the impact of the changes being implemented that there is no way you can confirm that the market can be sustained.

HPMA-IR-35 Ref. ICF Recommendations at p. 74

"It must be recognized that retail marketers are under no obligation to lower street prices if wholesale prices are reduced."

a. It has been recognized repeatedly by all parties that there is no mandate in the law that reductions in wholesale prices be passed to consumers by retail dealers. Dealers themselves have testified it is unlikely they will do so all the time, every time. Given the ultimate intent of the Law, shouldn't there be some adjustment mechanism of the gas cap be in place such that if the reductions are not passed on to consumers that the dealers are not unjustly enriched at the wholesalers' expense?

HPMA-IR-36 Ref. ICF Recommendations at p. 76 (486H Adjustments)

It was recommended that marketing margin factor (3) adjustment should NOT be based on PADD 5 DTW.

a. Are you recommending not using PADD 5 DTW Bulk price data because it would not be appropriate with your recommended methodology in computing price caps, or do you consider it inconsistent with the method and data points proposed by in the statute and why?
b. Why wouldn't your proposed methodology of averaging prices work here to address the variances that you note in the PADD 5 data base?

HPMA-IR-37 Ref. ICF Recommendations at p. 76 (Supply Impacts)

a. Please confirm that ICF's recommended methodology did not take into account that a gas cap could cause a refiner to export product to capture the higher value rather than selling it into the Hawaii market.
b. Did ICF look at refiners' ability to produce CARB gasoline and the economics of exporting to California? If so, what were the results? If not, would this not be important information for the PUC to know?
c. Please confirm that your analysis did not take into account any change of crude run (type and throughput) that may affect the amount of gasoline available from the local refineries.
d. If the product (gasoline or components) were exported or not produced, could this lead to a shortage of product for use by the Hawaii consumer?

HPMA-IR-38 Ref. ICF Recommendations at p. 76 (Ethanol)

"The intent of this report was not to identify the issues or impacts of ethanol blending: however, it is clearly a factor which may need to be considered by the Commission in future Gas Cap management."

a. April 4, 2006, is the effective date for the mandate that ethanol be used in the State. If marketing margins and zone adjustments are only adjusted annually how can decisions be made as to what capital improvements should be made to ensure that this mandate is followed, with adequate assurances that such costs can be recaptured in the margins, and, if so, would not capital costs also properly be a part of ICF's other recommended adjustments?
b. What mechanism is currently being recommended that would take into account the implementation of the ethanol legislation and, if

there is no mechanism currently in place, would the law have to be amended before these ethanol capital costs can be accounted for?

c. Given that the ethanol legislation is scheduled for implementation on April 4 and capital improvement costs incurred prior to that date, shouldn't the methodology proposed specifically take the State's ethanol mandate into account as a separate component in calculating either the rack or DTW marketing margin?

HPMA-IR-39 Ref. ICF's proposal to the PUC

a. Is it ICF's position that gas cap laws, such as HRS Ch. 486H, as amended, are not a good idea? If this is not ICF's position, what did ICF state in its proposal to the PUC for this consulting engagement about the effectiveness of gas cap laws?

b. Based on your response to the foregoing question, is it ICF's position that the Hawaii gas cap law (HRS Ch. 486H, as amended) is a good idea or is otherwise an exception to the position ICF took in its proposal to the PUC? If not, why not?

CERTIFICATE OF SERVICE

I hereby certify that on May 27, 2005, I served copies of the foregoing, together with this Certificate of Service, either by United States mail, postage prepaid, or by hand-delivery to the following:

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DATED: Honolulu, Hawaii, May 27, 2005.

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